



**UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL  
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ATLANTA, GEORGIA 30303**

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March 12, 2003

**ED-OIG/A04-C0014**

Dr. William H. Turner, President  
Kentucky State University  
Hume Hall, Suite 201  
Frankfort, Kentucky 40601

Dear Dr. Turner:

This **Final Audit Report** (Control Number ED-OIG/A04-C0014) presents the results of our audit of Kentucky State University's (KSU) compliance with the administration of the Title III, Part B, Strengthening Historically Black Colleges and Universities Program. Audit coverage included the period October 1, 1998, through September 30, 2001. The audit objectives were to determine whether KSU complied with Education Department General Administrative Regulations (EDGAR) and Departmental laws and regulations regarding Title III cash management and grant expenditures.

In its written response to the draft report, KSU concurred with the finding except for the portion relating to the lack of documentation for 189 expenditures of \$100 each (\$18,900). KSU stated that it subsequently identified supporting documentation and would provide it during the post audit review. KSU agreed that there was no supporting documentation for the remaining questioned expenditures totaling \$9,183 (\$9,283 less \$100 for Individual D) and requested a waiver from repayment of those funds because of the small amount. KSU's response to the draft report and our comments to the response are summarized in the Audit Results section of this report.

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## **AUDIT RESULTS**

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### **Finding No. 1 – KSU Did Not Always Document Title III Grant Expenditures**

KSU generally met the Title III, Part B, cash management requirements, but it did not always meet the record keeping requirements for grant expenditures. KSU accounting controls did not always ensure that grant expenditures were fully documented and supported. As a result, we identified unsupported expenditures totaling \$28,083.

Federal regulations at 34 C.F.R. § 75.730 regarding grant records state:

A grantee shall keep records that fully show:

- (a) The amount of funds under the grant;
- (b) How the grantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit.

Also, Federal regulations at 34 C.F.R. § 74.53(b) regarding retention and access requirements for grant records state:

Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report . . . .

There were 6,699 grant expenditures totaling \$3,618,657 between October 1, 1998, and September 30, 2001. We reviewed a judgment sample of 80 expenditures totaling \$359,008. KSU did not have sufficient supporting documentation for 6 of the 80 expenditures totaling \$9,283 as follows:

<b>Questioned Amount</b>	<b>Recipient of Expenditure</b>	<b>Comments</b>
\$ 4,000	Individual A	No copy of the check or other documentation to support the expenditure.
2,340	Individual B	No travel itinerary or travel voucher showing where the individual traveled to and how the travel related to Title III. Also, no receipt for rental car.
1,176	Champs	No copy of the check or other documentation to support the expenditure.
855	Individual C	No receipt or other documentation to support airfare expenditure.
812	Diners Club	No documentation that airfare charge was related to Title III. Documentation included only a credit card bill with \$812 airfare expenditure.
100	Individual D	Documentation included only a copy of the check with the notation "workshop" on the check stub. Also, no documentation of how the workshop related to Title III.
\$ 9,283		Total Unsupported Expenditures

There was either insufficient documentation to show that these expenditures related to Title III grant activities, or University personnel could not locate documentation to support these expenditures. The six expenditures with insufficient supporting documentation occurred during the period October 1, 1998, and August 31, 1999.

The questioned expenditure to Individual D for \$100 showed only a person's name as the expenditure description. We identified an additional 188 such expenditures of \$100 each. We requested supporting documentation for the 188 expenditures showing only a name as the expenditure description. KSU officials could not provide additional supporting documentation for these expenditures. Therefore, we also questioned these 188 expenditures of \$100 each, totaling \$18,800. The majority of these unsupported expenditures occurred during the period October 1, 1998, through September 29, 2000. As a result, we questioned unsupported costs totaling \$28,083 (\$9,283 + \$18,800).

KSU accounting controls in place during fiscal years 1998, 1999, and 2000 were not effective to ensure supporting documentation was maintained for Title III expenditures. Two different audit firms expressed no opinion on KSU's financial statements in the Office of Management and Budget (OMB) Circular A-133 audit reports for fiscal years ended June 30, 1999 and 2000.

The OMB Circular A-133 audit report for fiscal year ending June 30, 1999, stated that KSU's "[a]ccounting records were incomplete and inadequate." The auditors were unable to obtain written representations from KSU management as required by generally accepted auditing standards. In addition, the fiscal year 2000 audit firm was unable to perform compliance tests on major ED programs due to a lack of compliance with grant documentation and record keeping requirements.

The OMB Circular A-133 audit report for fiscal year ending June 30, 2001, gave an unqualified opinion on the basic financial statements. This improvement was primarily attributed to the hiring of a new Comptroller in January 2001 and a new Director of Financial Reporting in April 2001.

An example of the internal control deficiencies is illustrated by comments from the KSU business office staff. The business office staff stated that in 1998 and 1999 the accounting staff misplaced or lost supporting documents when Title III expenditure requests and documentation were transferred from one approving official to another. The questioned costs in this report are evidence of the accounting control problems.

## **RECOMMENDATIONS**

We recommend that the Assistant Secretary for the Office of Postsecondary Education require KSU to:

- 1.1 Repay \$28,083 in questioned costs to the Department of Education for the Title III grant expenditures that did not have sufficient supporting documentation.
- 1.2 Perform either a 100 percent review of grant expenditures or use a statistically valid sample approach to determine the existence of other questionable expenditures for the audit period of this report.

- 1.3 Provide the results of the expenditure review and return, if necessary, any unsupported costs to the Department.
- 1.4 Develop and implement accounting controls to ensure the maintenance of sufficient documentation to support Title III expenditures.

## **KSU RESPONSE**

KSU concurred with the finding except for the portion related to Individual D for whom there was no documentation to support the \$100 expenditure. KSU stated that it subsequently identified supporting documentation to substantiate the transaction and the similar 188 transactions that were identified, and will provide the documentation during the post audit review. KSU stated that it believed the total for the finding to be \$9,183, and requested a waiver of that repayment due to the minor amount.

KSU agreed that Title III programmatic and accounting controls in place during fiscal years 1998, 1999, and 2000 were not as effective as desired to ensure supporting documentation was maintained for Title III expenditures. To strengthen its controls, KSU hired additional staff to administer the Title III programs and ensure the proper review and approval of expenditures and the maintenance of sufficient documentation to support all KSU expenditures.

## **OIG COMMENTS**

Based on the written response to the draft report, we did not change the finding or recommendations. The only documentation available to support 189 expenditures of \$100 each was a check with the notation “workshop” on the check stub. In addition, there was no documentation of how the workshop related to Title III. This finding was discussed with KSU officials during the audit and no further explanation or documentation was provided. KSU should repay the cited \$28,083 and conduct a review of all grant expenditures and report the results to the Office of Postsecondary Education.

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## **BACKGROUND**

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Kentucky State University (KSU), founded in 1886, is a 4-year, State-supported co-ed liberal arts university. KSU awards the Bachelor of Arts, Bachelor of Science, Associate in Applied Science Technology, Associate of Arts, and Master of Public Administration degrees. KSU had an enrollment of about 2,200 and is accredited by the Southern Association of Colleges and Schools.

KSU is a Title III, Part B, grant recipient. KSU also participates in the following Title IV programs: William D. Ford Direct Loan, Federal Pell Grant, Federal Supplemental Education Opportunity Grant, and Federal Work Study.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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The audit objectives were to determine whether KSU complied with EDGAR and Departmental laws and regulations regarding Title III cash management and grant expenditures. Audit coverage included the period October 1, 1998, through September 30, 2001.

To accomplish the audit objectives, we performed the following:

- Reviewed applicable regulations.
- Reviewed the latest independent auditors' OMB Circular A-133 audits and financial statements for the years ended June 30, 1999, 2000, and 2001.
- Interviewed KSU officials responsible for cash management and grant expenditures.
- Reviewed cash management procedures by verifying KSU records of fund receipts with the Department's draw down of records in the Grants Accounting and Payment System (GAPS), comparing GAPS draw down records to KSU program expenditures, and verifying total expenditures to the amounts reported in the OMB Circular A-133 audit reports. We reviewed all Title III drawdowns and verified that the amounts drawn down met immediate cash needs (e.g., funds were expended within 3 days).
- Reviewed grant expenditures by selecting a judgment sample of 80 of the 6,699 grant expenditures for non-payroll items such as travel and payments to vendors for goods and services. We judgmentally selected high-cost items, amounts paid to non-traditional vendors that would not normally be involved in Title III transactions with a postsecondary institution (e.g., purchases from a sporting goods store), and travel costs paid to KSU employees.
- Verified that the sampled grant expenditures were allowable and properly supported and documented.
- Reviewed all grant expenditures of \$100 that showed only a name as the expenditure description.
- Contacted and obtained data from Department of Education Title III officials in Washington, DC.
- Performed physical inventory of long-term assets (computers, printers, and video equipment) and artifacts purchased to support approved Title III activities.

We relied on computer-processed data contained in KSU's computerized accounting system. We used grant award and disbursement data from the Department's Grants Accounting and Payment System (GAPS) to corroborate information obtained from KSU. We did this by comparing Departmental records of program and grant awards, drawdowns, and disbursements with KSU data. We also held discussions with KSU officials to gain an understanding of the processes for requesting and drawing down Federal funds, and for its accounting of revenue from Department programs and grants. Based on these tests and assessments, we concluded that the KSU data were sufficiently reliable for use in meeting the audit objectives.

Audit work was conducted during the period June 17, 2002, through October 11, 2002. An exit conference was held with KSU officials on October 30, 2002. The audit was conducted in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

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## STATEMENT ON MANAGEMENT CONTROLS

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As part of our review, we assessed the system of management controls, policies, and practices applicable to KSU's administration of Title III cash management of funds and grant expenditures. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of substantive tests to accomplish the audit objectives.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses that affected KSU's ability to comply with financial management requirements. The weaknesses include the failure to properly document grant expenditures. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

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## ADMINISTRATIVE MATTERS

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If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit:

Sally L. Stroup  
Assistant Secretary  
Office of Postsecondary Education  
Department of Education  
1990 K Street, NW, Room 7115  
Washington, D.C. 20006

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S. C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions or if you wish to discuss the contents of this report, please contact me at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465. Please refer to the Control Number ED/OIG A04-B0015 in all correspondence relating to this report.

Sincerely,

*J. Wayne Bynum*

J. Wayne Bynum  
Regional Inspector General  
for Audit, Region IV

Attachment

## ATTACHMENT – KSU's WRITTEN RESPONSE TO THE DRAFT REPORT



### Kentucky State University

Hume Hall, Suite 201  
Frankfort, Kentucky 40601

*Office of the President*

January 30, 2003

J. Wayne Bynum  
Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General  
61 Forsyth Street, Room 18T71  
Atlanta, GA 30303

**ED-OIG/A04-C0014**

Dear Mr. Bynum:

We have reviewed your **Draft Audit Report** dated December 13, 2002, of the audit of Kentucky State University's (KSU) compliance with the administration of the Title III, Part B, Strengthening Historically Black Colleges and Universities Program, for the period October 1, 1998 through September 30, 2001. As requested, we are providing a response to your report.

Your findings reflected that KSU generally met Title III, Part B, cash management requirements, but it did not always meet the record keeping requirements for grant expenditures. KSU programmatic and accounting controls did not always ensure that grant expenditures were fully documented and supported. As a result, your staff identified unsupported expenditures totaling \$28,083.

During the audit, KSU did not have sufficient supporting documentation for six expenditures totaling \$9,283 as follows:

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## ATTACHMENT – KSU’s WRITTEN RESPONSE TO THE DRAFT REPORT

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Questioned Amount	Recipient of Expenditure	Comments
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There was either insufficient documentation to show that these expenditures related to Title III grant activities, or University personnel could not locate documentation to support these expenditures. The six expenditures with insufficient supporting documentation occurred during the period October 1, 1998, and August 31, 1999.

The questioned expenditure to Individual D for \$100 showed only a person’s name as the expenditure description. Your staff identified an additional 188 such expenditures of \$100 each. We could not provide additional supporting documentation for these expenditures. Thus, you also questioned these 188 expenditures of \$100 each, totaling \$18,800. As a result, you questioned unsupported costs totaling \$28,083 (\$9,283 + \$18,800).

We concur with the findings except for the finding for Individual D. We have subsequently identified supporting documentation to substantiate this transaction and the similar 188 transactions identified and will provide documentation during post audit review. Accordingly, the University believes the total for all findings to be \$9,183, and we request a waiver of that repayment due to its minor amount.

We agree that KSU Title III programmatic and accounting controls in place during fiscal years 1998, 1999, and 2000 were not as effective as desired to ensure supporting documentation was maintained for Title III expenditures. To strengthen our Title III controls, a Vice President for Advancement was hired in June, 1999 with part of his responsibilities, beginning in October 1999, to administer our Title III programs. To strengthen our accounting controls, new personnel were hired in the following key positions: a Chief Financial Officer in June 2000; an Internal Auditor in October 2000; a Comptroller in January 2001 and a Director of Financial

## ATTACHMENT – KSU's WRITTEN RESPONSE TO THE DRAFT REPORT

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Reporting in April 2001. With the hiring of these key personnel, the University has developed and implemented appropriate programmatic and accounting controls to ensure the proper review and approval of expenditures and the maintenance of sufficient documentation to support all University expenditures, including Title III expenditures.

As proof of the positive results of these changes, for the OMB Circular A-133 audit report for fiscal year ending June 30, 2001, the University received an unqualified opinion on the basic financial statements. Additionally, as of today, a draft report for OMB Circular A-133 audit report for fiscal year ending June 30, 2002 has been received, which reflects that the University will receive an unqualified opinion on this audit as well. We can assure you that KSU has taken great strides in improving its fiscal operations and are certain that internal controls are in place to safeguard the University's assets and the interests of external entities.

We apologize for the delay in getting this response to you, due to the change of interim Presidents here at KSU effective January 1, 2003. If you have any further questions or concerns, please do not hesitate to contact me.

Sincerely,



William H. Turner  
President

Cc: Hinfred McDuffie  
William Pennell  
Marcus Webb  
Wanda Long  
Lee Eppinger

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